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Brussels, 16 May 1990

OPERATION PHARE

As part of the programme to support the process of economic and social reform under way in Hungary and Poland, the Commission has taken a number of financing decisions on projects in the priority sectors, namely agriculture, investment, the environment and training.[1] Taking into account earlier programmes, the amount of financing from the Community budget now stands at ECU 142 million. ECU 300 million was earmarked in the 1990 budget for direct aid to these two countries, to which must be added EIB and ECSC loans and the counterpart funds raised in Poland from the local sale of food aid, etc.

Most of these operations will be put out for tender and open to all firms of the Community and the two recipient countries. Invitations to tender will soon be published in the appropriate publications, notably the Official Journal of the European Communities.

All these operations, the details of which are given below, are to be finalized by the end of next year.

1. **Poland** - Environmental protection programme
2. **Hungary** - Environmental protection programme
3. Community participation in the Regional Environment Centre in Budapest
4. **Poland** - Programme of basic technical assistance for the privatization programme
5. **Hungary** - Modernization of the financial system
6. **Poland/Hungary** - cooperation in the field of economics
7. **Poland/Hungary** - Technical assistance for the implementation of the Transeuropean Mobility Programme for University Studies (TEMPUS)
8. **Poland** - Sectoral import programme for animal feeds and animal-feed additives

1 On the basis of proposals presented by Mr Andriessen in liaison Ms Papandreou, Mr McSharry and Mr Ripa de Meana in areas for which they are responsible.

1. **Poland - Environmental protection programme - ECU 22 million**

The short-term aim of the programme is to help Poland develop its environmental monitoring capacity and finance projects designed to reduce emission of pollutants, improve water quality and nature protection, and treat waste.

This initial programme will establish an overall strategy, an environmental protection policy, and, through feasibility studies for new projects, pave the way for future programmes.

The programme will involve:

(a) the setting-up of a fund to finance projects concerning air and water pollution, treatment of waste and the protection of natural sites: the financing will cover the cost of equipment, technical assistance and expenses incurred in implementing the project;

(b) participation in the Project Implementation Unit set up by the World Bank in the ministry concerned.

With regard to air pollution, one of the main pollutants is sulphur dioxide, which is present in great quantities as a result of high lignite consumption and the fact that emissions controls and environmental protection measures are inadequate. The economic crisis has also fuelled lignite consumption and reduced that of more costly energy sources. The worst affected areas are Upper Silesia and Cracow, where sulphur dioxide deposits exceed 100 tonnes/km^2.

Domestic heating in the form of individual coal fires is also damaging to the environment, especially since this type of emission is difficult and costly to control. Vehicle exhaust gases are also a subject of concern, though to a lesser degree.

Generally speaking, the monitoring of air pollution, whether of domestic or industrial origin, is inadequate.

Moving to water pollution, no significant progress has been made because the right technology for treating waste water and residues is not available and the industry lacks capital.

Vast quantities of industrial waste are emptied into rivers and the Baltic Sea. Not surprisingly, pollution levels are very high; a third of Polish rivers are too polluted even for industrial use.

The main sources of water pollution are: industrial and domestic waste water, industrial waste, water salinity caused by the coal industry and seepage of chemicals used in agriculture.

The demand for waste-water treatment is enormous since treatment facilities exist in only half the centres of population. The technology requirements are correspondingly enormous.

As to waste treatment, waste is put in open-air dumps without the slightest control. Indeed, waste management, industrial and domestic, is one of the biggest environmental problems facing Poland at present. The disposal of toxic waste, especially chemical waste, in the principal water courses and the use of the sludge as fertilizer are also cause for concern.

Protection of natural sites: an overall strategy is needed to protect the Mazury lakes, also under threat, and help the "new" institutions to take suitable measures.

2. **Hungary - Environmental protection programme - ECU 25 million**

The short-term objective is to improve Hungary's capacity to monitor the quality of aid and water and to give immediate financing for measures to improve waste disposal, regenerate the ecosystems of lakes, reduce emissions of pollutants and support training in environmental protection. The medium-term objective is to help the authorities responsible for the environment to draw up long-term environmental protection strategies and policies, bolster institutional capacity and lay the foundations for the Community's participation in environmental protection projects by preparing financing programmes.

The programme provides for:

(a) a fund to finance projects in the areas referred to above, which would cover the cost of equipment, technical assistance and other expenses incurred in implementing the programme;

(b) the setting-up of a unit within the ministry to administer the programme; it would include three outside experts to help implement the programme and achieve its objectives.

Decades of economic development based on heavy industry and intensive agriculture, and the lack of any environmental protection policy, have caused alarming levels of pollution in Hungary. Nearly 45% of the population live in areas where air pollution is over the internationally agreed limits and causes a high incidence of respiratory diseases, anaemia, bone abnormalities in children and lung cancer. Sulphur dioxide is one of the main source of pollution (45% exported and 10 tonnes/km_2 a year deposited in Hungary itself). Vehicle traffic is increasing the amount of nitrous oxide in towns. Water pollution, brought from neighbouring countries by rivers or generated domestically, is reaching worrying levels. Only half the population is linked to a system for evacuating waste water, and the water distributed to nearly 800 towns and villages has been qualified unfit for human consumption. Surface water and the tributaries of the main rivers are seriously contaminated with mercury, lead and bacteriological agents and there is a great deal of seepage of nitrates into underground water (115 000 tonnes a year). No reliable date is available on the soil but the improper use of fertilizers, atmospheric fallout and waste deposits have pushed the acidity level over the critical threshold of 4.5 pH in some places. Salinity has reached worrying levels over 100 000 ha in a region where the rise of underground water is threatening other irrigated areas.

About 30% of forests are affected, 12% seriously. Waste disposal is a real problem. The some 17 million cubic metres of waste produced each year are put in 2 600 dumps, of which only 58% are deemed to be adequately protected. Hungary imports hazardous waste which it is not adequately equipped to stock.

3. **Community participation in the Regional Environment Centre in Budapest - ECU 2 million**

Following the initiative to help Eastern and Central Europe deal with their environmental problems, the President of the United States proposed in July 1989 that a Regional Environment Centre should be set up in Budapest with a view to making a major contribution towards saving the region's environment that would go hand in hand with economic restructuring.

By the terms of its charter, the Centre is to be an independent, apolitical, non-profit-making organization. It will sponsor and support seminars, workshops, exhibitions, training courses, exchanges and study awards, and administer and publish a collection of information on the environment;

It would be advisable to make provision for close liaison with the future Community environment agency.

4. **Poland - Programme of basic technical assistance for the privatization agency - ECU 9 million**

The cornerstone of the liberalization and economic reform process is the break-up and privatization of the estimated 6 000 plus Polish state-held companies. A privatization agency will have the job of drawing up legislation and establishing the necessary procedures and conditions for an orderly and equitable privatization of these state-held companies. The agency will have a double role - preparations for privatization and privatization itself, and creation of a securities market. This will finance technical assistance, training abroad and outside institutional support. The first stage of the project will be implemented in close liaison with the International Finance Corporation.

5. **Hungary - Modernization of the financial system - ECU 5 million**

The Hungarian Government is engaged in sweeping reforms of policies, institutions and financial instruments, which are an integral part of general process of economic liberalization. Financial reform is seen as a key element of economic restructuring.

Hungary's national bank is negotiating with the World Bank for a loan of some US$ 66 million for the modernization and strengthening of the financial system.

The Community will finance part of the technical assistance and institutional support needed for the modernization programme. The programme will be implemented by the national bank in close cooperation with the World Bank and the Hungarian banking association.

6. **Poland/Hungary - Cooperation in the field of economics - ECU 1.5 million**

The aim of this cooperation is to promote an exchange of scientific knowledge and expertise in specific economic fields between professional and academic economists of Poland, Hungary and the Community.

The specific fields will concern the process of reform and economic integration, including an analysis of the macroeconomic situation and ways of tackling macroeconomic imbalances, and questions relating to liberalization, integration and microeconomic reform.

Community aid will mainly take the form of grants for research and teaching, research networks and projects and advanced training courses.

7. **Poland/Hungary - Technical assistance for the implementation of the Transeuropean Mobility Programme for University Studies (TEMPUS) - ECU 2 million**

The aim of the programme is to create a technical assistance instrument for the start-up and initial implementation phase of the TEMPUS programme, starting on 1 May for a period of nine months.

It is planned to establish a central coordinating office to help set up TEMPUS offices in Poland and Hungary, develop administrative procedures for the administration of TEMPUS grants, select projects for this year and establish proper coordination with the relevant authorities within the Community and other countries of the Group of 24.

8. **Poland - Sectoral import programme for animal feeds and animal-feed additives - ECU 20 million**

This is the second operation to aid Polish agriculture. Under the programme, 40 000 tonnes of animal feed (for pigs and poultry) and various additives to the value of ECU 4 million will be sold to private-sector farmers, who will thus have an opportunity to obtain good quality products at a low price. This will help improve the financial situation of private-sector farmers and boost production of good quality meat.

Technical assistance will be given to help improve the food and health situation and to impart appropriate technology for the animal-feed industry. A study will be carried out to lay down a coherent and effective strategy for the meat sector and food stocks.